

CITY OF SEATTLE
King County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Budget Appropriations Should Be Modified Within The Fiscal Year Covered, Before The Expenditures Are Incurred

We again noted the city of Seattle's budget was amended late. The final amendment to the 1993 budget was made in July of 1994, increasing appropriations for various city departments and funds as follows:

<u>Department or Fund</u>	<u>General Fund</u>	<u>Other Funds</u>
Office of Women's Rights	\$ 59,158	\$ -
Arts Commission	17,383	-
Public Safety Civil Service	5,053	-
Law Department	89,428	-
Licenses and Consumer Affairs	120,530	-
Finance General	48,694	-
Seattle Center	-	180,442
Engineering Transportation	-	902,964
Library	-	30,000
Judgment, and Claims	-	228,589
General Bond Redemption Fund	<u>-</u>	<u>2,612,770</u>
Totals	<u>\$340,246</u>	<u>\$3,954,765</u>

These increased appropriations and transfers, set forth in Ordinance 117200, arose from costs incurred in 1993, which exceeded the appropriations.

RCW 35.32A does not authorize budget amendments after the fiscal year covered. RCW 35.32A.050 states in part:

The expenditure allowances as set forth in the enacted budget shall constitute the budget appropriations for the ensuing fiscal year. The city council by ordinance may, during the fiscal year covered by the enacted budget abrogate or decrease any unexpended allowance contained within the budget allowances for other functions or programs. (Emphasis ours.)

As the city council did not amend the 1993 budget until July of the following fiscal year, city management in fact made expenditures before being authorized by council.

RCW 35.32A.090 states:

There shall be no orders, authorizations, allowances, contracts or payments made or attempted to be made in excess of the expenditure allowances authorized in the final budget as adopted or modified as provided in this chapter, and any such attempted excess expenditure shall be void and shall never be the foundation of claim against the city.

Any public official authorizing, auditing, allowing, or paying any claims or demands against the city in violation of the provision of this chapter shall be jointly and severally liable to the city in person and upon their official bonds to the extent of any payments upon such claims or demands.

Any person violating any of the provisions of this chapter, in addition to any other liability or penalty provided thereof, shall be guilty of a misdemeanor.

Excess expenditures and untimely budget amendments appear to be the result of city management not monitoring expenditures in relationship to appropriations as set forth in the budget. Regular comparisons of expenditures and appropriations are necessary for effective budgetary controls.

This finding also appeared in our 1990 and 1991 audit reports.

Additionally, controls over budget entries should be strengthened. Our review of budget journal entries disclosed continuing appropriations of \$1,046,907, approved and posted by an individual in the finance department. According to the city's policy, Office of Management and Budget (OMB) should approve all budget entries.

We again recommend city officials hold management responsible for remaining within their budget appropriations. Any budget modifications should be made before expenditures are incurred and therefore before year end. We further recommend all budget entries be approved by OMB.

2. General Ledger Account Balances Should Be Reconciled To Supporting Records In A Timely Manner

We found several significant general ledger account balances which were not reconciled to supporting records in a timely manner.

- a. The December 31, 1993, cash account balance was not reconciled to the bank statement until April 1994. Some unresolved differences date from 1992. At the end of our field work, the city was seven months behind in this reconciliation.
- b. Warrants outstanding account balance was not routinely reconciled to the actual warrants outstanding.

A well designed internal accounting control structure includes periodic comparison and reconciliation of actual assets to recorded balances. Without a strong system of accounting and administrative controls which includes periodic reconciliations, city officials have no assurance errors or irregularities will be detected in a timely manner.

We recommend the city finance department reconcile significant general ledger account balances to supporting records on a routine, periodic basis.

3. Accounts Payable And Purchase Order System Accounting Controls Should Be Strengthened

Several internal control weaknesses were noted during our audit of the city's accounts payable and purchase order (APPO) system. The APPO system is a module of the city's on-line mainframe accounting system, Seattle Financial Management System (SFMS). SFMS is decentralized; each department initiates and approves APPO transactions and maintains the supporting source documentation.

- a. Segregation of duties and security to various SFMS databases is controlled through the use of passkeys. APPO is further restricted through the use of operator records which authorize users to perform entry, approval or actual posting of voucher and purchase order data to the system. To be effective, authority to approve an entry should be limited to someone other than the initiator, preferably a supervisor. Per our review of the operator records, many users were authorized to enter, approve and post, without review.
- b. The SFMS on-line features allow city employees with APPO access to specify whether a warrant (prepared by the central warrant issuance division) is mailed to the vendor or routes back to the originating department. We noted approximately one-third are routed back, allowing access to the actual warrant by the initiator of the transaction.
- c. On two occasions during 1993, the central warrant issuance division mailed duplicate warrants to vendors. A power outage caused the printing of duplicate warrants; no controls were in place to catch the duplications. Vendors cashed duplicate warrants of approximately \$320,000 before the city was notified. All but \$940 was eventually returned to the city. Duplicate warrant issuance has occurred as recently as July 1994.
- d. APPO vendor master field address is not restricted. This field can be changed by anyone with APPO access; there is no central oversight.
- e. The industrial insurance division issued duplicate warrants to various medical providers, based upon multiple invoices for the same service. We noted at least \$33,000 in duplicate payments. The city relies on the medical providers to catch duplications; no other controls are in place.
- f. Requests for refunds of business and occupation (B & O) taxes were issued by the department of licensing and consumer affairs without verification of accuracy. We found no evidence of audit review.

These weaknesses are the result of the decentralized nature of the city's accounting system. The city is responsible for establishing a system of controls which provide safeguards over city assets. Without a strong system of accounting and administrative controls over payables, city officials have no assurance errors or irregularities will be detected in a timely manner.

We recommend city officials:

- a. Utilize the passkey and operator records controls built into the accounting system by restricting data entry and approval authority so that the same individual may not both enter and approve a transaction.
- b. Centrally mail warrants directly to vendors and not route warrants back to

originating departments.

- c. Establish controls to detect the printing of duplicate warrants.
- d. Restrict access to vendor master field address.
- e. Establish controls to detect duplicate invoices from medical providers.
- f. Verify accuracy and legitimacy of B & O tax refund requests.

4. Permanent Cash Deficits In City Funds Should Be Eliminated

The city's engineering transportation and engineering services funds carry permanent large cash deficits which are covered with improperly authorized loans. (Several other city funds also carried continuous deficit cash balances but to a much lesser degree.)

Most city funds are set up so that a negative cash balance earns the fund negative interest to the benefit of funds with positive cash balances. These de facto loans were intended to address temporary cash shortages. However, the deficits of the engineering transportation and the engineering services funds are continuous and large.

The loans to cover the deficits for the two funds at December 31, 1993, amounted to \$6,750,000 and \$2,250,000, respectively. These amounts are representative of the funds' fluctuating but continuous de facto loans.

The Seattle Municipal Code section 5.06.030 states in part:

The Finance Director, in consultation with the Chair of the Finance Committee of the City Council, may in his or her discretion . . . approve interfund loans for a duration up to sixty (60) days

The loans to the engineering transportation fund have effectively been in existence for several years and have the appearance of permanence. The engineering services fund is new for 1993 and carried a deficit cash balance for most of the year. The loans to both funds exceed 60 days and have not been authorized by city council.

Further, the engineering services fund (an internal service fund) is not included in the negative interest system. Thus, deficit balances in this fund cause de facto loans for which no interest is paid.

RCW 43.09.210, which prohibits one fund from benefiting from another, states in part:

. . . no department shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

The Office of State Auditor, in its *Budgeting, Accounting and Reporting System* (BARS) manual, Volume 1, Part 3, Chapter 4, page 1, establishes the minimum acceptable procedures for making and accounting for interfund loans:

The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest

City funds should be allocated sufficient working capital, through appropriation or rate structure, to operate with a positive cash balance. The funds should not utilize a temporary cash deficit system to cover a permanent deficit position.

We recommend city officials eliminate the continuous cash deficits of city funds. We further recommend the engineering services fund repay to the solvent funds the interest due on its de facto loans.

5. Seattle Municipal Court Financial Records Should Be Reconciled In A Timely Manner

As noted in our two previous audit reports, certain reconciliations of the financial records of Seattle Municipal Court (MCIS) have not been implemented:

- a. The bail trust checking account was not reconciled to bail pending records. As of December 31, 1993, the difference between the checking account and the Bail Trust Summary Report was \$54,262.
- b. The restitutions checking account was not reconciled to the MCIS accounts payable records.

A well designed internal accounting control structure includes periodic comparison and reconciliation of actual assets to recorded balances. Without reconciliations the court cannot adequately safeguard and report its financial activities. Additionally, the deficiencies noted above increase the possibility of errors or irregularities occurring and not being detected in a timely manner.

We recommend court officials implement an effective internal control structure which includes the following monthly reconciliations:

- a. The bail trust checking to the bail pending records.
- b. The restitutions payable checking account to the MCIS accounts payable records.

6. The Street Cost Report Should Be Accurately Prepared

The city's street cost report, filed with the Washington State Department of Transportation (WSDOT), was prepared inaccurately. In addition to mathematical errors, interfund revenues and expenditures exceeding \$17,000,000 were counted twice.

Filing of the street cost report, required by RCW 35.21.260, provides data for WSDOT to report to the federal government and the state legislature. Inaccurate data reported by the city causes inaccurate data to be reported by WSDOT.

The errors occurred because the city uses a very cumbersome process to prepare the report. Additionally, there was no supervisory review prior to submission.

Subsequent to our audit, the city corrected the identified errors and filed an amended report.

We recommend city officials prepare the street cost report with more care and subject it to review before filing.

7. Ten Percent Of The Net Proceeds Of Retained Forfeited Property Should Be Remitted To The State Treasurer

The city has not remitted 10 percent of the net proceeds of retained forfeited property to the State Treasurer as required by the Uniform Controlled Substances Act. We estimate the amount owed to be approximately \$8,000.

The Act, under RCW 69.50.505, states in part:

(h)(1) By January 31st of each year, each seizing agency shall remit to the state treasurer an amount equal to ten percent of the net proceeds of any property forfeited during the preceding calendar year . . .

(2) The net proceeds of forfeited property is the value of the forfeitable interest in the property after deducting the cost of satisfying any bona fide security interest to which the property is subject at the time of seizure; and in the case of sold property, after the cost of sale . . .

(3) The value of sold forfeited property is the sale price. The value of retained forfeited property is the fair market value of the property at the time of seizure . . .

The city contends it has no "net proceeds" if the forfeited property has not been sold. However, the law defines "net proceeds" for both sold and retained forfeited property.

By not complying, the city is retaining use of moneys rightfully belonging to the state.

We recommend city officials remit 10 percent of the net proceeds of retained as well as sold forfeited property to the State Treasurer.

CITY OF SEATTLE
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Schedule Of Federal Findings

1. Internal Controls Over Preparation Of The Schedule Of Federal Financial Assistance Should Be Strengthened

The City of Seattle lacks an adequate system to ensure the accuracy and completeness of the Schedule of Federal Financial Assistance. City departments enter information relative to their grants into the city's accounting system. The finance department generates the Schedule of Federal Financial Assistance (SFFA) from that system.

Our audit of the SFFA revealed the following inaccuracies:

- a. Federal Emergency Management Agency (FEMA) awards to City Light totaling \$1,757,129 were omitted.
- b. FEMA awards to the Water Department totaling \$151,116 were omitted.
- c. Bonneville Power Authority weatherization program data inaccurately included program income of \$1,639,472.
- d. Projects were not updated, causing errors in the reporting structure used to generate the schedule.
- e. Programs were coded to the wrong project or catalog number.

The errors and omissions occurred due to the city's decentralized accounting system and a lack of oversight of the accuracy and completeness of information entered into the system.

The SFFA provides the basis for audit procedures required by the Single Audit Act of 1984. An inaccurate SFFA results in wasted and misdirected audit efforts and increased audit costs.

The SFFA included in this report has been corrected for the errors and omissions we noted.

We recommend city officials establish and implement an internal control structure ensuring the accuracy and completeness of the Schedule of Federal Financial Assistance.

2. Internal Controls Over Preparation Of Community Development Block Grant Reports Should Be Improved

The city does not have in place systems to provide reasonable assurance that it will produce an accurate and timely Schedule of Federal Financial Assistance (SFFA) and special reports related to the Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program. As a result, the city submitted an inaccurate Grantee Performance Report (GPR) to HUD.

The SFFA is generated by the finance department from the city's accounting system. Data for the GPR, which reports the numerous CDBG activities, is manually reconstructed by the city department administering CDBG from a fund used to account for several HUD programs. Both reports were inaccurate and disagreed by millions of dollars. Further, the manual reconstruction makes it extremely difficult, if not impossible, to produce an accurate GPR within the 90-day period required by HUD.

An accurate GPR is required to be submitted to HUD by 24 CFR 570.507. An accurate SFFA is required by the Single Audit Act of 1984.

The city has notified HUD to discontinue use of the submitted GPR due to inaccuracies. An accurate GPR for 1993 is not expected until the end of 1994. In the interim, no accurate GPR exists detailing the city's CDBG activities for 1993. The financial information related to CDBG as presented in the Schedule of Federal Financial Assistance included in this report has been corrected.

The cause of these conditions is twofold. First, the city is still attempting to configure the accounting system installed in 1991 to produce information in a usable and timely manner. Second, major internal reorganizations have shifted CDBG responsibilities. During 1993, CDBG administration was in a state of flux.

We recommend city officials improve the internal control systems over the production of the federal reports and produce timely and accurate reports in the future.

3. Accounting For Fixed Assets Should Comply With Federal Requirements

Our prior audit reported that fixed assets purchased with federal funds were not so identified in the city's fixed assets inventory system.

Equipment purchased with federal funds is subject to the "Common Rule" for *Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments*, Section .32, which states in part:

(d) Management Requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Failure to comply with the above federal regulations could result in improper disposal of federal assets and jeopardize future grant funding.

This situation is the result of the city's decentralized accounting system; city departments do not always enter the required information into the system.

Our prior audit also reported that the city had not taken a comprehensive physical inventory of general fixed assets and reconciled the results to the detailed subsidiary ledger for years. As of the last day of our field work, all city departments had performed a physical inventory with the exception of the engineering department.

Although the city has shown improvement in accounting for general fixed assets, strong controls have not been fully achieved due to the decentralized nature of the city and insufficient resources.

We again recommend city officials continue efforts to establish adequate accounting controls over federally funded fixed assets by complying with the property management standards referred to above.

4. Accounts Payable And Purchase Order System Accounting Controls Should Be Strengthened

The internal control reportable condition discussed in nonfederal Finding 3 is also applicable to the city's federal programs.